BELIEFS, PRINCIPLES, AND THOUGHTS FOR THE NEW YEAR

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Happy New Year and welcome to 2024! Every month, we like to impart some perspective on the financial markets or shed light on a current headline or two, all in an attempt to help our clients sift through the noise and become slightly more educated investors. We welcome your comments and suggestions, and as always, we invite you to share this piece with anyone you believe may find it of interest.

As we look back, not just into 2023 but across the last two years, we can pretty much sum up all equity market behavior in two sentences: *In 2022, the Dow, the S&P 500 and the NASDAQ 100 all experienced peak-to-trough pullbacks of 21%, 25%, and 35% respectively. Yet a week before Christmas 2023, all three were in all-time high territory on a total return basis[1].*

Why stocks did this will be theorized and debated ad nauseum by the usual host of analysts, strategists, and commentators. But what should matter to us investors more than *why* it happened, is *that* it happened....that we could experience a significant bear market consuming the near entirety of one year then see those declines completely erased the following year. It happened because that's how it works.

We want to break this month's Check-In into two parts: the first using the aforementioned events to reinforce the beliefs and principles by which we work; the second giving some thought to the current landscape and the year ahead.

Our beliefs and principles

- We believe that the economy cannot be consistently forecast, nor the markets consistently timed. The highest probability means for capturing the long-term returns potential of the markets is to remain invested.
- We are long-term owners of businesses. We are not speculators in the near-term trends of stock prices.
- Pullbacks in the broad stock market indices, while frequent and sometimes unnerving, have always been surmounted, as the companies that form the backbone of America consistently innovate.
- Long-term investment success most reliably depends on making a plan and sticking with it continuously.
- An investment policy that is based on the anticipation of – or the reaction to – current economic, financial, or political events will almost always fail in the long run.

Some thoughts for 2024

- We remain convinced that the disruptions and distortions resulting from the COVID pandemic are still working their way through the economy, the markets, and society, all in ways that are difficult to predict, much less render into coherent investment policy.
- The central financial event in response to COVID was a 40% increase in the money supply by the Federal Reserve which, in turn, fueled extreme inflation.
- To subdue that inflation, the Federal Reserve then implemented the sharpest, fastest interest rate hiking cycle in its 110-year history[2]. Both stock and bond markets were damaged in response.
- Despite this, economic activity just about everywhere – less the housing market – has remained relatively robust. Employment, at least so far, has remained largely unaffected.
- Inflation has come down substantially, although not yet close to the Fed's 2% target. But prices for most goods and nearly all services remain elevated, straining many household budgets.
- Capital markets have recovered significantly, as speculation now focuses on when and by how much the Federal Reserve may lower interest rates in 2024, and whether a recession may actually materialize. Despite strategists' posturing, these outcomes are simply unknowable – likely even to the Fed itself – and do not lend themselves to formulating a rational long-term investment policy.
- Significant uncertainties remain. Trends in the U.S. federal deficit and the national debt continue to appear unsustainable. Social Security and Medicare appear to be on paths toward insolvency unless reformed. The serial debt ceiling crisis continues, and of course we cannot forget the bitterly partisan presidential election that looms. The markets will face substantial challenges in the year ahead – just as they seem to face every year.

Our bottom line remains the same as it largely has for the last two years – our preference is to own stocks, not because the Federal Reserve may cut interest rates or because inflation appears to be heading lower, but because stocks remain in an uptrend and that is simply what you do. It wouldn't surprise us much however to see some weakness early in the year, coming off last year's big fourth quarter rally that left many stocks a bit extended. And one should certainly expect volatility this summer as the November election comes into view. But unless goals and needs have meaningfully changed, we advise sticking with current plans. And if those plans haven't changed, we will likely see no compelling reason to alter the course of our recommended portfolios.

From our families to yours, we greatly look forward to our continued association in the year ahead, and we wish you a happy, peaceful, and prosperous 2024.

Onward.

[1]Thomson Reuters [2]Bloomberg

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